

TRUCKEE TAHOE AIRPORT DISTRICT
BOARD OF DIRECTORS AGENDA ITEM SUMMARY

Topic: Revision and Approval of **Temporary** Policy 504 Leases, Rents, Rates and Charges

Purpose Information: **X** Guidance: Decision: **X**

Recommendation Review and approve Temporary Policy Instruction 504(formerly PI 621.1). Staff recommends the policy be in effect for a period of one-year beginning December 1, 2011.

Last Action The Board and Staff began review of the current policy and process for developing the updates at the June 23, 2011 Board Meeting. Staff reviewed policy goals and proposed revisions at the July and September meetings. The Board asked staff to propose metrics associated with the proposed revisions to assess their ongoing effectiveness.

Discussion Staff proposes a revised Policy to enable more efficient use of District resources with a presumed increase in net revenues. The concept outlined in the policy provides ranges for rate and fees. The General Manager shall have executive authority to structure pricing within the boundaries of the policy margin or price ranges. This is in contrast to the existing policy which sets actual margins. The current policy falls short in its flexibility to match pricing to factors such as weekly or seasonal demand, competitive market dynamics, costs of products or services delivered, or packaging of goods and services.

Staff proposes that the revised policy be put in place temporarily to determine if the assumptions made in consideration of the policy revision are valid. These assumptions include:

1. Positive relations with operators can be fostered by efficient, fair and effective pricing of goods and services.
2. Positive relations with operators can lead to increased awareness and compliance with noise and annoyance reduction measures. Staff contact with operators is the primary method that these relations are created and sustained.
3. Matching price with demand can yield additional revenues.
4. Waivers and reductions of certain fees can yield increased revenues. Customers would rather put fuel in the aircraft than pay a fee.
5. A relationship exists between retail fuel price to the customer and volume purchased. Aircraft dispatchers and operators have become more sophisticated in their ability to plan and monitor fuel purchasing. While it is still assumed that an aircraft will take fuel when needed, the amount and location

TRUCKEE TAHOE AIRPORT DISTRICT BOARD OF DIRECTORS AGENDA ITEM SUMMARY

of purchase is more of a factor now than in the past when fuel was less expensive.

The success (or failure) of the changes will be measured considering a triple bottom line of financial performance, operational impacts and customer satisfaction. Metrics related to assumptions 1 and 2 will include informal surveys and staff feedback gained from interaction with customers. Staff will report financial operating results in the monthly financial report.

Financial performance (related to assumptions 3-5) will be assessed using year to year comparisons and relationships to budgeted targets. The "business as usual" case is well defined in this year's budget and staff expects this to be a key baseline.

Operational impacts will be reviewed regularly with staff to minimize any additional costs related to potential increased service volumes. Anticipated impacts to staff utilization for tasks such as fueling or other service delivery will be monitored to ensure the highest levels of safety and efficiency. Customer satisfaction will be gauged anecdotally and through the District's Customer Comment Cards. A more formal Customer survey could be a valuable ACAT project.

Staff proposes to use the attached Table: *Monthly Operating Results* for ongoing communication with the Board.

Staff proposes to implement changes effective January 1, 2012. This provides time to conduct additional market research for certain products and services, order materials and implement communications. It also will enable FYQ1 to be completed with "business as usual" operating parameters. It is expected that most pricing will remain static for duration of this test (September 30, 2012) however fuels margins and product/service bundling would be likely be adjusted throughout the test period.

Fiscal Impact

Staff anticipates outcomes that include greater customer satisfaction and increased revenues. One example of how this might be accomplished:

From 6/1/10-5/31/11 1614 transient use fees were charged to applicable aircraft. WASP data shows 2272 aircraft operations over 12,500 lbs. during this period. Transient use fees are currently charged for non-tenant aircraft greater than 5,500 lbs.

935 jet fuel purchases were made during this period. The average fuel uplift was 186 gallons.

TRUCKEE TAHOE AIRPORT DISTRICT BOARD OF DIRECTORS AGENDA ITEM SUMMARY

Assuming 15% of the purchases were made by tenant aircraft that results in 795 transactions to transient aircraft.

49% of transient jet aircraft purchase fuel based on these numbers, however a presumably significant portion are missing from any of these calculations, due to the lack of clear operational numbers for turbine aircraft less than 12,500 lbs.

It is reasonable to assume the actual proportion of turbine aircraft purchasing fuel is somewhere in the 35-40% range. It is assumed that with modifications to existing rates and charges, a greater proportion of aircraft operators will buy goods and services from the District resulting in an increase in net revenues with minimal additional costs. If an operator is given the choice of paying a Transient Use Fee or purchasing a minimum amount of fuel, it is assumed many will elect to purchase fuel. This assumption was recently confirmed with one fractional operator, when discussing proposed changes.

With appropriate pricing for Transient Use Fees and fuel, the result can be greater revenues from the District's existing customers. Recognizing that margin is a key factor in the success of this process, staff will carefully review margin changes to ensure a proper balance between margin, volume and net revenues.

Staff proposes to attempt to optimize the Districts FBO business model, based on the policy goals, utilizing methods such as:

1. Tiered fuel volume discounting, restructuring transient use fees.
2. Demand-based pricing.
3. Fee reduction/waivers when combined with other purchases.
4. Restructured fuel truck roll fees.
5. Product and service bundling.
6. Price adjustments to fuel margins, parking, tie-down fees and aircraft services in accordance with seasonal and market conditions.

The District will have been successful when:

1. Offsets to the loss from operations are reduced.
2. Fuel sale net revenues increase while maintaining current operation levels.
3. Net revenues increase for other District products such as tie-down fees, long term parking, etc. while maintaining current operation levels.

TRUCKEE TAHOE AIRPORT DISTRICT
BOARD OF DIRECTORS AGENDA ITEM SUMMARY

4. No attributable increase in community comments. Staff will carefully track low flight complaints, monitor traffic volumes, aircraft repositioning, and other potential positive or negative effects of new pricing strategies.

Staff proposes the General Manager have the final authority for pricing all goods and services, as outlined in the Draft Temporary Policy Instruction 504. Furthermore, staff proposes that the Director of Finance and Administration be responsible for final pricing of 100LL fuel, due to considerations of other staff members also purchasing the product from the District.

Included in the Staff Report is the exhibit from last month's presentation for reference purposes.

**Communication
Strategy**

Staff will notify operators and customers through various methods, such as AirNav.com, the District web site, email and direct contact regarding revisions to rates and charges. Input will be gathered and considered for future Policy revisions.

Attachments

Table: Monthly Operating Results
Proposed Temporary Policy 504
Exhibits from September Board Meeting Discussion